Environmental Audit Committee
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John Thorpe
National Audit Office
157-197 Buckingham Palace Road
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11 March 2015

Dear John,

Hinkley Point C

Thank you for your letter of 26 February. We can take some assurance from the issues that your value-for-money audit of the Hinkley Point contract will cover, including the changes to the deal from the European Commission's State Aid Rules review, the implications for investment in other energy sources including renewables, and 'foreign equity' risks. We would be grateful if you could give us a better indication of the likely timing of your audit work and when the NAO report would be published.

In your letter you highlighted in particular (drawing from your past audits) the risk of the impact of the Hinkley contract-for-difference on the Levy Control Framework, with "levy costs escalating if energy market prices fall below expected levels". One issue that is relevant to the operation of the levy control framework, but has, because of the extending timescale for Hinkley Point C's initial generation starting time, so far eluded inclusion in the current framework, is the relationship between the award of CfDs under an early investment contract and their operation and hence capture of a substantial slice of whatever might be in any levy control framework only at the point of eventual completion and power generation by the plant. It might be recalled that, at the time of the early discussion on the introduction of CfDs and their management by the levy control framework, Hinkley C was projected to start generating and hence drawing on awarded CfDs by 2018. Now it appears that such a draw might not occur until 2023 or so, but even so the amount of draw is known, and must surely be set against whatever replacement of the 2020-21 cap on CfDs that will be set by a future government. We would be interested to learn whether any such modelling has been undertaken, and if so what effect it may or may not have on the overall design of any future framework that takes the award of CfDs beyond 2020. And we would be grateful if such matters could be taken into account in your audit of the Hinkley deal.

I look forward to clarification on this.

Sincerely,

Joan Walley MP
Chair, Environmental Audit Committee